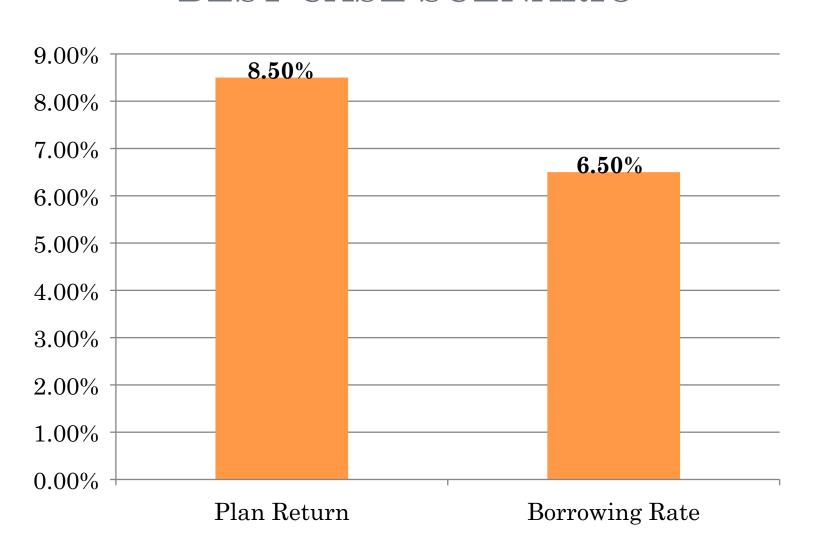


**BENEFITS AND CONCERNS** 

- Debt instruments issued by municipality to fund all or a part of the unfunded pension liability.
- Taxable debt which requires a higher interest rate than debt for governmental purposes.
- Annual appropriation debt backed by the City. City (taxpayers) ultimately guarantees the debt.

- Provides cash to invest immediately. Short term this lowers the unfunded liability and provides resources to meet future benefit payments.
- The goal is to invest bond proceeds at a higher rate than the total cost of borrowing, thereby reducing the annual pension contribution. "Beating the Market"
- Can reduce the annual pension contribution required to fund the Plan.

## BEST CASE SCENARIO



#### STRUCTURE

- Issue \$200 million of POBs at 6.5% for 25 year term
- Annual bond debt payment \$16.4 million
- 2% Positive rate differential generates \$4 million.
- City's annual contribution for bond payments reduced to \$12.4 million

#### STRUCTURE

- Primary risk is the actual return on the investment of plan assets may be lower than the cost of borrowing over the life of the pension obligation bonds.
- In theory a higher interest rate obligation (benefit payments) is being financed with a lower rate obligation (bond payment), but it is uncertain if there will be any future savings.
- Variable rate instrument to repay fixed amount of debt.

# NOT SO GOOD SCENARIO



#### STRUCTURE

- Annual payment on bonds \$16.4 million
- 1.50% negative rate differential impact of \$3 million
- Increases the unfunded liability by \$3 million
- Shortfall made from the City's general fund

#### CONCERNS

- B etting on excess returns. B eat the market for 25 years.
- The Plan's liability is measured at a point in time. The liability is impacted by Plan benefit payments, demographics and investment returns. The unfunded liability can reappear during the time the PO B s are outstanding.
- Is the Plan able to tolerate the higher level of investment risk required to generate higher returns?
- Issuing PO B s can result in additional benefit payments such as "COLAs" that are based on the funded ratio of the Plan.

#### CONCERNS

- Actuarial studies indicate the Plan's liability or benefits payable will continue to grow over the next several years.
- POBs will address the unfunded liability only in the year they are issued. As the Plan's liability increases, the additional cost must be funded by the City's general fund.

#### IMPACT ON CITY

- City's credit rating Aa2 assigned by Moody's. In the latest report, Moody's made the following comments about the City:
- Stable financial operations
- ✓ Taking steps to address the deterioration in the Pension Plan
- ✓ Overall debt burden at 4.6%, above average but manageable.

#### IMPACT ON THE CITY

- PO B s will increase the City's debt burden and will use up debt capacity that could be used for other purposes.
- Some rating agencies consider the use of POBs as deficit financing, potentially impacting the City's credit rating. This will increase the cost of borrowing for other City projects.
- If the rating dropped to A, each year's bond issuance would cost the City an additional \$13 million over the 20 year bond term.

#### IMPACT ON THE CITY

- Convert a "soft" liability reflected in the Notes to the Financial Statements to a "hard" liability appearing on the balance sheet.
- POBs alone will not significantly reduce the City's current contribution of \$13 million. Budget cuts currently in effect would continue for 25 years.
- Does the City have the financial resources to make debt payments if the savings does not materialize and to fund the increased liability?

# QUESTIONS??